STRATEGIES FOR A NEW ERA

2003-2004 Alberta Economic Development Authority ACTIVITY REPORT

ALBERTA
ECONOMIC DEVELOPMENT AUTHORITY

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CONTENTS

Message from the Chair 4

Keeping Alberta Strong 5

The Future Starts Now 6

Strategies for Success 8

- Preparing Albertans 9
- Connecting to Markets 10
- Building Partnerships 11
- Promoting Excellence 12

The Next Twenty Years 13

Global Business Forum 2003 13

AEDA Board 14

– Gordon Nixon, President and CEO, RBC Financial Group, *Achieving Canada's Potential in the 21st Century*, Princeton Developments Distinguished Lecture in Finance, Edmonton, November 2, 2004

MESSAGE FROM THE CHAIR

A decade of determination and sound fiscal policy has ushered in a new era for Alberta. We are debt free, and have established a provincial financial regime that will help keep us debt free into the future.

More than anything, our fiscal strength is a source of hope to Albertans. We can be confident Alberta has the resources and drive to be the best place in Canada to live, work and play. We can take steps to make our visions for the future, outlined at events like the Future Summit, reality.

The province must use its prosperity wisely. It must make strategic decisions to promote Alberta's growth in the long run. Awareness of this guides the Alberta Economic Development Authority's reports and recommendations to the Government of Alberta. With representatives from the business, academic and regional economic development sectors, the Authority offers comprehensive input on topics important to the economy—and Alberta's reputation as a great place to live.

In 2003-2004, the Authority focused on several key challenges. Our Jobs for the Future Committee noted the interdependence between Alberta's labour market and learning system in its report, *An Urgent Call to Action*. It strongly recommended that government, learning institutions and the private sector work together to ensure Alberta has the educated, skilled workers it needs to continue to prosper. The Transportation Committee completed a review of the province's transportation sector. Its report highlights actions that would ensure Alberta has the infrastructure, international linkages and people to keep this vital industry healthy. In March 2004, the Authority co-hosted a National Symposium on Regional Economic Development. The event promoted the sharing of experience and best practices among the many economic development alliances across Canada. Finally, the Authority began an examination of mega-project activity in the province, with the goal of finding ways to promote excellence in design and construction.

This year's reports, and those of the past few years, align with the Government of Alberta's new twenty-year strategic plan. The Authority is pleased that the government has already acted on many recommendations. Over the next year, it will work towards further implementation of the recommendations.

As Alberta approaches its centennial, the Alberta Economic Development Authority looks forward to continued partnership with the government. Let's make Alberta's second century as prosperous as its first.

– Premier Ralph Klein, Edmonton Petroleum Club Speakers Luncheon, September 29, 2004

KEEPING ALBERTA STRONG

The Alberta Economic Development Authority (AEDA) is a unique partnership between Alberta's private and public sectors. Its Board of Management and standing committees give business and academic leaders an opportunity to review policy and provide advice to the government on issues related to business competitiveness and economic development.

Formed in 1994, AEDA has made significant contributions to Alberta's economic direction, including the new value-added strategy, Securing Tomorrow's Prosperity, and the Alberta International Marketing Strategy. Through activities like the Global Business Forum and regional development workshops, it has also created opportunities for business owners and leaders to share ideas, expertise and best practices to support continued growth and prosperity across the province.

AEDA's six standing committees focus on the primary challenges facing Alberta. The knowledge and experience of committee members help ensure government policy responds to a changing world. As Alberta enters a new fiscal era, and a new century, AEDA remains committed to helping maintain a strong economic environment and creating opportunities for Albertans.

Fiscal and Regulatory Committee:
Improve Alberta's business environment, focusing on fiscal and regulatory issues.

Business Development Committee:
Improve the growth, innovation and productivity of Alberta's resource, manufacturing, new economy and service sectors.

International Business Committee:
Expand Alberta's international export and investment opportunities.

Labour Force Committee:
Develop the human resources essential to Alberta's future growth and prosperity.

Transportation Committee:
Ensure Alberta's access to domestic and global markets through efficient and effective transportation and distribution.

Regional Development Committee:
Support the development and activities of regional partnerships and alliances within Alberta.

www.alberta-canada.com/aeda

– Budget Speech, March 24, 2004

>>> THE FUTURE STARTS NOW

Alberta's economic growth continued to outpace that of Canada in 2003. Real Gross Domestic Product (GDP) grew by 2.7 per cent in 2003—in spite of the affects of the SARS outbreak and the single case of BSE on our tourism and agriculture industries. Growth is expected to strengthen to above four per cent for 2004 and between three and four per cent for 2005.

GDP growth translated into employment growth, with 47,900 new jobs created in 2003—an increase of 2.9 per cent, the highest in Canada. Eighty per cent of the new jobs were full-time positions. The unemployment rate in 2003 was the second lowest among the provinces, at 5.1 per cent. Job growth fuelled greater migration to Alberta, contributing to nation-leading population growth of 1.3 per cent in 2003.

Albertans continue to enjoy the highest personal disposable income per capita in 2003, 14 per cent, or $3,100, above the national average. They also enjoyed the lowest overall tax load among the provinces. That created consumer confidence. Retail sales grew by 4.5 per cent in 2003, compared to the national average of 3.6 per cent. New home construction starts in 2003-2004 were 23 per cent higher than the five-year average, while housing remained more affordable than the average for Canada in the first quarter of 2004.

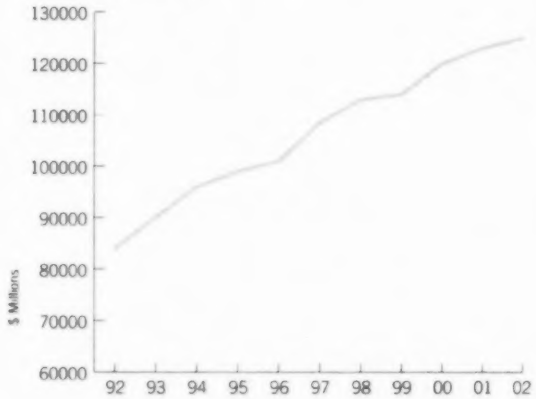
Edmonton and Calgary maintained their cost competitiveness in comparison to centres in Canada and the United States, demonstrating that Alberta continues to enjoy a strong business advantage. With 2.9 million residents now covered by regional economic alliances, work is progressing to extend that advantage to all Albertans.

There are challenges. Manufacturing shipments rose by 5.0 per cent in 2003, but investment in the manufacturing and service industry declined by 2.2 per cent. Manufacturing and service exports declined 6.5 per cent. Much of these results are due to external factors, such as the impact of SARS and BSE and uncertainty produced by continued terrorist threats and the war in Iraq.

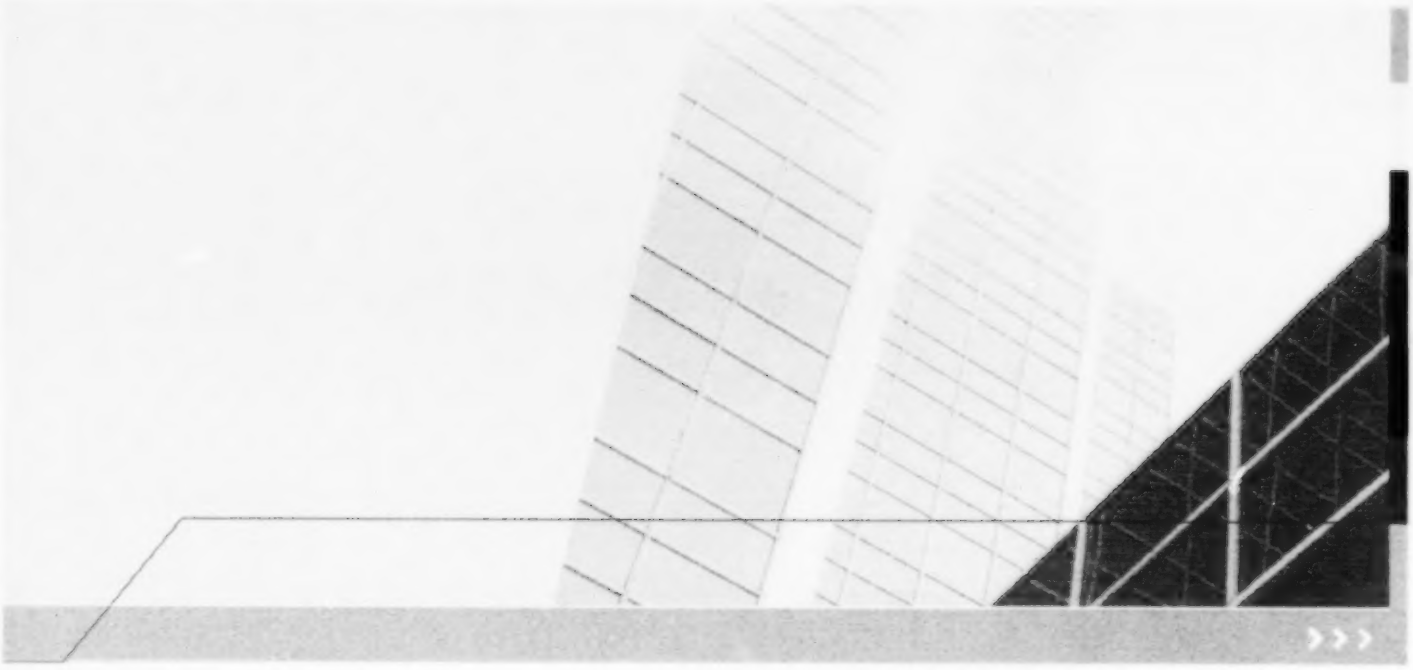
The inflation rate for 2003 was 4.2 per cent, led by increases in automobile insurance and energy costs. However, inflation is expected to fall to the two per cent range for 2004 and 2005.

With the fiscal freedom created by the retiring of the provincial debt, Alberta has the capacity to strategically tackle the challenges it faces. Coupled with the confidence and entrepreneurial strength of Albertans, this province is in a strong competitive position for the start of a new century.

GDP
Real 1997 $



Source: Alberta Economic Development



COST COMPETITIVENESS

International ranking of cost competitiveness of Alberta cities based on a comparative cost model*

Sectors/Subsectors	Actual 2002-03		Actual 2003-04		Target 2003-06
Food Processing	2	1	2	1	
Health Care Products & Services					
Pharmaceuticals	3	1	2	1	
Medical Devices	2	1	2	1	
Biomedical R&D	4	1	**3	1	to maintain or improve ranking
Information, Communication and Technology (ICT)					
Advanced Software	3	1	3	1	
Electronics Assembly	2	1	2	1	
Electronic Product Development/Testing	4	1	4	1	
Industrial Machinery/Metal components	4	3	5	1	
Plastic Products	5	3	5	2	
Specialty Chemicals	2	1	2	1	

Source: KPMG Consulting

*These rankings are based on the KPMG custom cost model developed for evaluating the cost competitiveness of business locations. For consistency with the previous comparisons used in the model, six Canadian Cities (Calgary, Edmonton, Vancouver, Toronto, Ottawa and Montreal) and four US cities (Boise, Boston, Colorado Springs and Minneapolis) were included for the purpose of this performance measure. Note: Phoenix was included in the model in 2002-03 but not in 2003-04. The following factors are included in the model: initial capital costs for land acquisitions and building construction; total annual labour costs, including all benefits; office lease and occupancy costs; utility costs; transportation costs; interest and depreciation charges; federal, regional and local taxes levied on corporations, including significant non-discriminatory tax incentives and additional discretionary tax and financial incentives. The ranking integrates the factors and is based on total costs.

**Calgary's ranking for the Biomedical Sector was tied for 3rd place with Ottawa.

– TD Bank Financial Group, Special Report, *Time to Wise Up on Post-Secondary Education in Canada*, March 15, 2004

STRATEGIES FOR SUCCESS

AEDA's mandate allows it to look at all aspects of Alberta's economy. This year, our focus was on the completion of two critical long-term projects, the work of the Jobs for the Future Committee and the Transportation Committee, as well as expanding our support for regional economic development. The Authority also took on a new project, an examination of mega-project activity in Alberta.

- **Preparing Albertans**
- **Connecting to Markets**
- **Building Partnerships**
- **Promoting Excellence**

Preparing Albertans

Alberta enjoys one of the highest rates of employment in the country, and the highest rate of employment growth. At the same time, there are as many as 38,000 unfilled jobs in our small- and medium-size companies. There aren't enough qualified people to do the work in all sectors of the economy, and the situation is expected to get worse in the future.

Without enough people, and the knowledge and innovative thinking they contribute, businesses must limit their growth. In addition, Alberta's future prosperity depends on our ability to move from a primarily commodity-based economy to a value-added economy. The key to success is a knowledgeable and skilled workforce.

At the same time, there are groups in Alberta that are underemployed or unemployed. These include Aboriginal peoples, immigrants, visible minorities, disabled people, people with low incomes and single parents. In addition, Alberta's participation rate in undergraduate programs is significantly lower than the Canadian average.

An Urgent Call to Action, AEDA's Jobs for the Future Committee report, notes that Alberta's "weakest link is our ability to educate, train, attract and retain a sufficient supply of highly skilled people to fuel and sustain continuing growth in the economy."

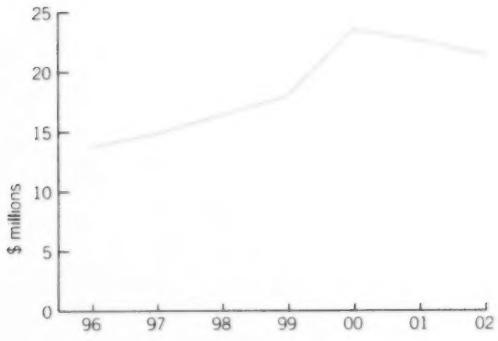
The report calls on Alberta to develop the most highly skilled workforce in the world. It identifies several challenges, including the lack of adequate post-secondary capacity, the need to increase the number of young people completing post-secondary and post-graduate education, serious shortages in the trades, under-investment in adult skill development, and gaps in the recognition of credentials and coursework among post-secondary institutions.

The report makes a number of recommendations, with priority given to:

- Increasing the number of students who graduate from high school and go on to post-secondary education;
- Using innovative approaches to improve access to post-secondary education;
- Ensuring that Aboriginal people have the education and skills to participate fully in Alberta's workforce;
- Expanding business and industry investment in continuous learning and upgrading for their employees; and
- Establishing a longer-term labour force strategy to provide timely information and plan ahead, rather than simply reacting to shortages when they occur.

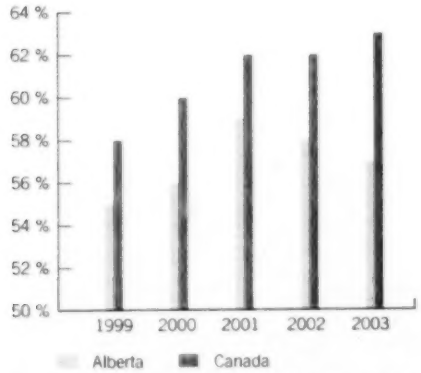
Investment in education is an investment in our most vital resource, people. Education, industry and business leaders must join government in developing Albertans' knowledge and skills. Each has a role in ensuring that Alberta has the skilled workers it needs, now and in the future.

Total Value-Added Exports
1996 - 2002



Source: Alberta Economic Development

Percentages of Albertans Aged 25-34 who Completed Post-Secondary Progams



Source: Statistics Canada Labour Force Survey, Special Tabulation for Alberta Learning

>>> Connecting to Markets

Every day, Albertans drive to work, catch buses to local municipalities, fly to other cities or countries, and hear the whistle of a freight train on a transcontinental trip. They do so without realizing that the transportation sector is the fifth largest in Alberta's economy, ahead of education, health and retail trade. Transportation supports tourism, provides access to export markets and is the circulatory system of economic exchange. It is vital to our daily lives and every sector of our economy.

In 2001, the transportation and warehousing sector contributed $6.4 billion to Alberta's GDP, 20 per cent more than it did in 1996. It employed 96,000 people in 2002, 45 per cent more than in 1996. The increases in size and employment were well above the Canadian averages for the sector.

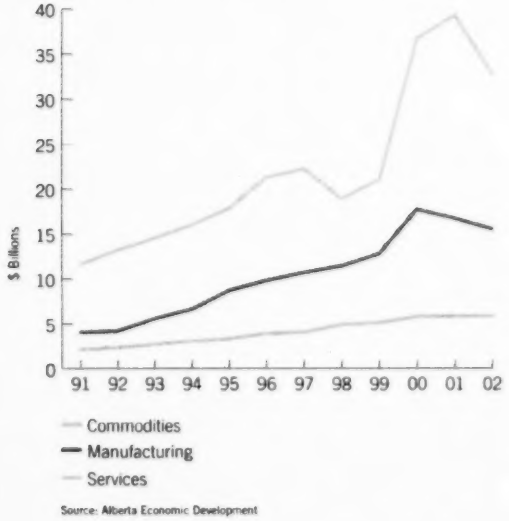
AEDA's Transportation Committee began a review of the transportation sector in 2003. They consulted stakeholders through interviews and workshops, conducted econometric analysis and reviewed research. The result was the report, *The Transportation Sector in Alberta: Present Position and Future Outlook*, released in January 2004.

The report makes several recommendations on a range of transportation issues, including:

- Raising the profile of, improving the quality of information about, and increasing consultation with stakeholders in, the transportation sector;
- Improving the transportation infrastructure;
- Examining policy and regulations affecting long-combination vehicles, border congestion, shortline railways, air service agreements, aviation fuel tax, federal airport rent formulas, and tourism partnerships;
- Improving industry operations; and
- Expanding opportunities for sector-related secondary and post-secondary education in Alberta.

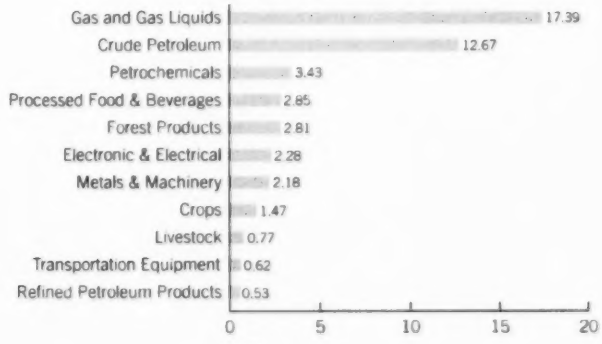
The report identifies the infrastructure needs of the major urban areas as a top priority, as these are the focal points for value-added activity and goods distribution. It also calls on the government to respond to key challenges in the sector, including labour shortages and the move towards intermodalism and containerization. Alberta needs to ensure our trade corridors, regional linkages and ports have the capacity and quality to support increased economic activity and enhance our competitive advantage.

Growth in Alberta Exports



Source: Alberta Economic Development

Alberta Goods and Services Exported 2002



Source: Statistics Canada

– Minister of Alberta Economic Development, March 9, 2004

STRATEGIES FOR SUCCESS

Building Partnerships

On March 24 to 26, 2004, Alberta welcomed regional economic development leaders from across Canada to a National Symposium on Regional Economic Development Best Practices. AEDA and Alberta Economic Development co-hosted the event in conjunction with the Provincial Conference of Alberta Regional Economic Development Alliances.

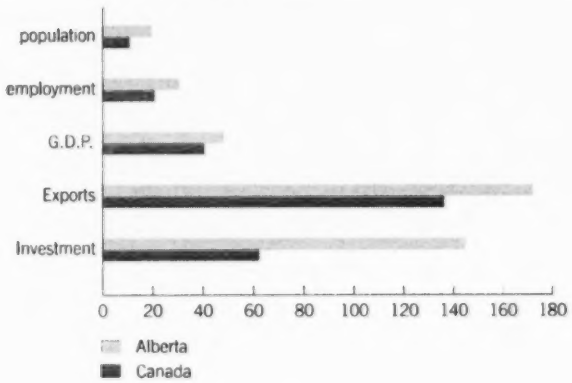
The events facilitated the sharing of knowledge and information, provided learning and networking opportunities for individuals involved in regional economic development and highlighted successful practices, techniques and tactics.

Symposium activities followed the theme, *Best Practices in Regional Economic Development—A Canadian Perspective.* A keynote speaker from western Canada discussed "The Canadian Oilsands Experience", and one from eastern Canada examined "Prospering in Global Competition." Additional keynote speakers, concurrent sessions on best practices, breakout sessions and an information fair rounded out the agenda. It attracted 186 delegates, with 88 per cent giving the event a satisfactory or very satisfactory rating.

The provincial conference focused on *Success Through Partnerships*, with keynote speeches, plenary panels, breakout sessions and an information fair. Over 230 delegates attended, from over 50 communities. More than 90 per cent of those who provided feedback were satisfied or very satisfied with the event.

Delegates to both events strongly recommended that AEDA and Alberta Economic Development sponsor similar events in the future.

Growth in Selected Economic Indicators
Percentage Change 1992 - 2002



Source: Statistics Canada

>>> Promoting Excellence

At the request of the government, the Alberta Economic Development Authority initiated a study of mega-project development in Alberta. The study grew out of concerns about cost overruns associated with these projects. Cost-effectiveness in the construction and operation of oil sands, petrochemical and pipeline mega-projects affects Alberta's economic future. Overruns have the potential to erode investor returns and discourage ongoing investment in the province.

The government asked AEDA to facilitate communication among stakeholders and work with them on strategies. The Authority will meet with industry and other stakeholders to identify steps already underway, further actions that could be taken and measures to avoid cost overruns in the future. Industry will have primary responsibility for overcoming barriers and acting on opportunities. But the effort will also require cooperation from project owners, designers and builders, labour organizations and government.

The goal is to enhance Alberta's excellence in conceiving, designing and constructing world-scale projects. AEDA will play a leading role in bringing stakeholders together, and will report in early 2005.

– Premier Ralph Klein, *Heading Toward Alberta's Second Century*, Televised Address to Albertans, February 4, 2004

THE NEXT TWENTY YEARS

The Government of Alberta introduced its new twenty-year strategic plan early in the 2004-2005 fiscal year. The economic component of the plan, *Securing Tomorrow's Prosperity*, is based on four key directions:

- Enhance Alberta's current competitive advantages;
- Build Alberta's innovation system;
- Grow and strengthen small- and medium-sized enterprises; and
- Focus on priority value-added sectors.

The Alberta Economic Development Authority played a significant role in the development of the plan, and recommendations it has made in recent reports align with the key directions. It has encouraged action to strengthen the education system, update infrastructure, encourage investment and improve marketing. In addition, the Authority is actively committed to regional economic development, to make the most of all Alberta's potential and to ensure that all Albertans benefit from this province's wealth.

AEDA is committed to helping Alberta make its next century as exciting and progressive as its first. As the government implements the strategic plan, AEDA will continue in its advisory and support roles. Its unique blend of private and public perspectives is a valuable asset to government decision-making.

GLOBAL BUSINESS FORUM 2003 >>>

On September 25 and 26, 2003, business and government leaders gathered at The Fairmont Banff Springs for the third Global Business Forum. Presented by the Alberta Economic Development Authority and the Interstate Natural Gas Association of America, the Forum considered topics related to "*Advancing the Global Business Agenda: Promoting Growth and Confidence.*"

Discussions focused on innovative economic strategies and solutions, barriers to trade growth and productivity. The Forum agenda also allowed exploration of governance, ethical issues, energy supply and demand, and pending labour shortages. Keynote speakers included Microsoft Canada President, Frank Clegg; Chairman of the U.S. Federal Energy Regulatory Commission, Patrick Henry Wood, III; Scotiabank President, Richard Waugh; NOVA Chemicals President and CEO, Jeffrey Lipton; and Alberta Premier Ralph Klein.

The importance of people as a factor in advancing business growth emerged as a strong theme. It was clear that business must invest in people and relationships, locally and globally, to achieve strong growth. Other ideas that emerged were:

- Real corporate leadership means sharing values with the community;
- Immigration policies and investment in education must address the pending shortage of skilled workers;
- Business today must demonstrate greater accountability and world-class ethics;
- Mechanisms for improving trade relations across North American borders might involve business leaders in more cross-border meetings and partnerships;
- Foreign policy must stem from a nation's values and beliefs, defining national interests, enabling nations to lead; and
- Commodity prices, especially in the energy sector, are expected to trend up, but many variables exist.

– Speech from the Throne, February 17, 2004

>>> AEDA BOARD as of April 1, 2004

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